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# Third World lending: harsher terms

*The prospective Third World borrower is facing rough times ahead as credit terms and credit prices grow tougher.*

A shift toward harsher borrowing terms and shorter maturities in Eurodollar lending toward the Third World, accompanied by a new round of oil price increases, foreshadows a very rough time ahead for lesser developed countries (LDC's). Unless the long-awaited Phase II of the European Monetary System is stabilized, then the volume of plentiful and inexpensive credit that the Third World needs to survive the present period will not be available.

The shift toward more restricted terms of credit surfaced for the first time this week in the Euromarkets, as the last few years' tendency toward constantly lowering spreads over LIBOR (London Interbank Overnight Rate) came to a halt. Exemplary are the terms offered Spain's Fuerzgas Electricitas de Cataluna (FESCA) which last year raised $130 million in the Euromarkets at ¾ to⅞ percent over LIBOR and at 10 year maturity. Last week, Citibank gained the contract to raise $200 million for FESCA, but only at the higher ⅞ percent over LIBOR and with a shortened eight-year maturity. Likewise, the Republic of Panama was forced to take a $150 million line of credit at 1 ¼ over LIBOR and eight-years maturity. A spokesman for the First National Bank of Chicago, which will make the loan, boasted that Panama took a more "mature" attitude to the unfavorable market terms and added that "It realizes that the spread is only a small part of the loan."

Brazil, with its $50 billion debt, has been cited by bankers as a possible break-point for weeks. The Feb. 4 *Wall Street Journal*, entitled, "Big Borrower: Facing a Hard Year, Brazil Again Counts on the Banks," characterized Brazil's borrowing situation this year as "bleak," putting the matter on public record. With $15 to $20 billion in debt service to finance this year, as well as between $1 to $3 billion in an expected trade deficit, Brazil must either get new funds or cut its growth rate to the bones. This is already happening, as the major international banks are using Brazil's desperate need for credit as a club to get that country to accept steeper terms of credit. One banker, closely connected with Brazil, said a struggle was still going on in Brazilian official circles, "between the realists and those looking for September 1979 terms," reports the Feb. 4 *Financial Times*.

The chief problem faced by prospective borrowers from the Third World is the price of credit. Since the credit crunch instituted by Federal Reserve Chairman Paul Volcker on Columbus Day weekend last year, the cost of dollar loans internationally has risen by 3 to 4 percent. Now, new oil price increases are further jeopardizing the credit position of the Third World. Each new increase in oil worsens the non-oil-exporting Third World nations' balance of payments positions, requiring additional new financing.

In the Feb. 4 issue of its *International Finance* newsletter, Chase Manhattan Bank proposes a downturn in Third World growth. In an article entitled "Growth Slow-down in the Non-Oil LDC's," Chase predicts "the reduction in growth rates implied by this scenario is severe, however, particularly in the export-oriented 'newly industrialized economies.' Growth over the next year or two in these countries will probably be no more than half the rate achieved in recent years. The slowdown in the so-called 'middle-income' developing economies will be less pronounced, but still significant for the vast majority."

Moreover, to ensure the outcome predicted by Chase, the International Monetary Fund, which lent very little in all of 1979, reports in its latest newsletter that it expects that Third World countries, shut out of the Euromarkets by the big banks will have to go, hat-in-hand to the IMF. On Feb. 4, the Carter administration submitted to Congress a $5.5 billion appropriation bill to beef up the IMF's funding. In addition, the IMF is now talking of having its capital base increased to $60 billion.

Under IMF loan "conditionalities," Third World countries are often forced to severely cut imports, cut down large industrial projects and return to "simpler," less productive labor-intensive projects. Such a prescription will gut Third World nations' ability to pay off outstanding loans, further impairing the world lending picture.



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